

WHITE PAPER

# U.S. Foreign Aid

## Meeting the Challenges of the Twenty-first Century

Bureau for Policy and Program Coordination  
U.S. Agency for International Development

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This White Paper is intended to stimulate discussion of major policy issues surrounding development and foreign aid. It is not a statement of official U.S. Government policy.

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# From the Administrator

Today we are witnessing the most significant shift in awareness and understanding of international development that's been seen since the end of World War II. The demise of the Soviet Union, the integration of global communications and markets, the growing menace of global terrorism, weapons of mass destruction and transnational crime, the surge of HIV/AIDS and other infectious diseases—all these are hallmarks of an altered 21st century landscape for development. Failed states and complex emergencies now occupy center screen among the nation's foreign policy and national security officials. Americans now understand that security in their homeland greatly depends on security, freedom, and opportunity beyond the country's borders. Development is now as essential to U.S. national security as are diplomacy and defense.

The story on development is not all daunting challenges, however. A rich track record exists of over 40 years of success in reducing infant and child mortality, raising agricultural production through scientific innovations, and spurring economic growth and the building of democracies in many regions of the world. President George W. Bush's Millennium Challenge Account represents an exciting new commitment to economic growth and development.

When I assumed leadership of the U.S. Agency for International Development in May, 2001, I launched a process of internal reform to prepare the Agency for these new challenges and opportunities. We are revitalizing our cutting-edge technical leadership and reforming critical

business operations. We have integrated our emergency, transition, and food operations into a single capacity to respond to failing states, complex crises, and postconflict reconstruction, and augmented it with a new conflict mitigation and management focus. And we are carefully aligning our foreign assistance and foreign policy objectives and resources with the U.S. Department of State to assure maximum impact of foreign aid targeted on the right objectives. The extraordinary leadership of President Bush and Secretary Powell in U.S. international engagement inspires us to reach for such impact.

Now, in implementing the Monterrey Consensus, the 2002 U.S. National Security Strategy, and the main points of *Foreign Aid in the National Interest*, we are looking for broader reforms that will strategically align U.S. foreign aid resources and accountability with the various and distinct objectives of foreign aid. This White Paper attempts to identify such reforms.

It is, by definition, an unofficial document intended to promote dialogue and discussion. We have intentionally placed the proposed reforms and guiding principles in this paper within the context and manageable scope of USAID; however, their power to transform lies with all US foreign assistance providers. We look forward to the debate.

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# Overview

The 2002 National Security Strategy assigns development a new prominence in U.S. national security, along with diplomacy and defense. At the same time, there is an intense debate in the foreign policy community about how to enhance the effectiveness of foreign aid.

This paper addresses both of these issues. It clarifies the evolving role of U.S. foreign assistance in a rapidly changing global context; and it suggests ways to increase aid effectiveness and policy coherence through greater clarity of purpose, alignment of resources with objectives, and strategic management.

## EVOLVING ROLE OF FOREIGN ASSISTANCE

Given many threats to national security in the post-Cold War, post-9/11 world, U.S. foreign assistance must address more than humanitarian and developmental goals. Conditions of instability and insecurity that arise from terrorism, transnational crime, failing states, and global disease must be mitigated for sustained economic and social development to take root and flourish.

Thus, U.S. foreign assistance now must be understood as addressing five core operational goals:

- > Promoting transformational development
- > Strengthening fragile states
- > Providing humanitarian relief
- > Supporting U.S. geostrategic interests
- > Mitigating global and transnational ills

Each goal presents distinct challenges, and achieving each will require different knowledge and responses. While all require a deep understanding of the local context and drivers of change, each must be approached with different considerations for risk, program design, and accountability.

From the perspective of long-term U.S. interests, the goal of transformational development remains the best investment. Only through building good policies, stable institutions, and local capacity will developing countries create their own prosperity and assume responsibility for their own security. As a nation develops, it has less need for external aid to deal with disasters and conflict or to address disease pandemics and transnational crime. Stable, prosperous, democratic nations make better partners for the United States as they address their own interests from a foundation of interdependence. And, such countries offer growing opportunities for mutually beneficial trade and investment.

Not all countries enjoy the conditions needed for transformational development. In countries that are not committed to reform, conventional development programs are unlikely to advance development. In fact, assistance actually may mask underlying instability or contribute to state fragility. Hence, it is critical to invest resources in these countries very carefully, with clear expectations as to what is possible in the short term, and with flexibility tailored to changing circumstances.

## INCREASING THE EFFECTIVENESS AND POLICY COHERENCE OF FOREIGN ASSISTANCE

Donors have learned much about development and aid effectiveness in the past five decades, including the following:

- > Foreign aid is essentially supportive, while local leadership, ownership, and participation are critical.
- > Progress is primarily a function of commitment and political will to rule justly, promote economic freedom, and invest in people.
- > Institutions, not resources, matter most.
- > Foreign aid and trade are complements to—not substitutes for—each other.

There are clear avenues for improving U.S. foreign aid effectiveness, including:

- > Clarify the goals of aid and align the resources with those goals.
- > Allocate aid across and within countries more selectively.
- > Emphasize strengthening institutional capacity.
- > Place more emphasis on host country partnership, ownership, and internal participation.
- > Pay more attention to the constraints of absorptive capacity.
- > Improve donor coordination and harmonization.
- > Ensure more timely and effective graduation from traditional development assistance.

#### **WHAT MUST CHANGE TO ACHIEVE GREATER EFFECTIVENESS AND POLICY COHERENCE**

Important changes are already underway, including:

**USAID and State coordination**—Building on the National Security Strategy, USAID and the State Department have recently created a Joint Strategic Plan to harmonize foreign policy and development goals. Both are increasing admin-

istrative and policy coherence through the creation of the Joint Management Council and Joint Policy Council. In all core goal areas, State and USAID will work more closely to build the political commitment that underpins reform and progress.

**USAID and Millennium Challenge Corporation coordination**—USAID will assure strong complementarity between its development portfolio and that of the MCC, employing principles of selectivity based on commitment and performance in countries that can aspire to MCC eligibility or are good candidates for transformational development.

**USAID Fragile States Strategy**—USAID will improve its strategic analysis of state fragility and conflict vulnerability. USAID will also identify new program approaches for use in selected fragile states and increased organizational responsiveness to the internal dynamics of these states.

**Resource rationalization**—Strategic management of resources (including policies, strategies, resource allocation, program guidance, and results reporting) will be phased in to better distinguish and align resources by specific goal area within USAID's strategic budgeting process.

With support from key executive and legislative decisionmakers, further reforms could help achieve even greater effectiveness and coherence:

**Increased availability and flexibility of resources for transformational development and fragile states** are needed to achieve the core foreign aid goals. With the current budget structure, geostrategic concerns and transnational issues are well funded. In countries that will not immediately benefit from the MCA, sufficient resources appropriate for transformational development are quite limited relative to needs. In particular, funds that support country economic growth strategies are scarce. ■



# Introduction

This paper is about strategically reforming U.S. bilateral foreign aid, particularly the substantial portion administered by USAID. It builds on the promising reforms embodied in President Bush's proposal for a Millennium Challenge Account. It is motivated by two factors.

First, development progress has been prominently recognized as a vital cornerstone of national security. The September 2002 National Security Strategy—issued one year after the terrorist attacks on the United States—emphasizes development as one of the three strategic areas of emphasis (along with defense and diplomacy) based on the following considerations:

- > The main security threats to the United States stem from the confluence of terrorism and proliferation of weapons of mass destruction, and global criminal networks.
- > Weak states—in the developing world and among formerly communist countries—provide the most permissive environments and the least resistance for these threats.
- > Contrary to perceptions after the Cold War, the United States and other donor countries cannot afford to ignore such states.
- > The development challenge is that of “widening the circle of development.” That includes strengthening currently fragile states to lay the foundations for development progress, and achieving or maintaining development progress in other countries so that they do not become weak states.
- > Supporting the latter point, research indicates that the countries most prone to conflict, crisis, and state failure are those that are poor or not making development progress.<sup>1</sup>

## NATIONAL SECURITY RELEVANCE AND AID EFFECTIVENESS

The relevance of U.S. foreign assistance to U.S. national security and the call for greater aid effectiveness are key drivers of strategic reform. This White Paper aims to address both of these problems. It argues that to establish policy coherence and address both real and perceived effectiveness issues, *USAID needs to identify, clarify, and distinguish among its core operational goals; more clearly align resources with these goals; and manage strategically to achieve results in terms of each goal.* Considering the new national security challenges, the lessons of development experience over the past several decades, and the evolving context for development cooperation, the paper posits five core operational goals. It proposes distinct resources for each goal, as opposed to the current situation of trying to achieve multiple goals with the same resource, particularly Development Assistance. For each goal the paper articulates guiding principles for managing these resources strategically.

In addition to heightened security interests, U.S. national interests in development progress and developing countries have expanded and intensified with globalization. On the economic side, successful developing countries—both advanced countries and poor countries making steady progress—have provided the most dynamic markets for U.S. exports. And, rapidly expanding exports have played a significant and increasing role in overall United States growth.<sup>2</sup> Development

<sup>1</sup> See Paul Collier et al., *Breaking the Conflict Trap: Civil War and Development Policy*, World Bank Policy Research Report, 2003.

<sup>2</sup> For supporting data and analysis see “Trade Capacity Building and the U.S. Stake in Trade with Developing Countries,” USAID/PPC, 2002. These positive impacts occur not just over the medium term, but even in the near term.

progress also enhances the capacity (and often the willingness) of countries to cooperate on a growing and increasingly important set of global and transnational concerns.

Humanitarian interests in helping others—especially the poor and victims of famine and natural catastrophes—loom larger than ever. Finally, effective development cooperation is arguably an important cornerstone for international cooperation more generally.

In line with the National Security Strategy, the State-USAID Strategic Plan includes development as one of the three strategic objectives, along with defense and diplomacy. Again, this amounts to a major upgrade in the acknowledged importance of developing countries and development progress among broad U.S. foreign policy priorities.

Second, to adequately respond to these challenges U.S. bilateral foreign aid needs to become much more effective. A recent study from the Center for Global Development (CGD) notes, “U.S. bilateral assistance has been heavily criticized for its lack of focus and for achieving weak results in recipient countries.”<sup>3</sup> The CGD study offers a helpful analysis of the sources of perceived weakness in U.S. bilateral foreign aid—one that essentially points to problems of policy coherence:

While part of the problem lies with the internal structure and culture of the organization itself, much lies with the elaborate web of legislation and directives from Congress in which the Agency labors. To get a sense of the complexity, consider the U.S. Foreign Assistance Act of 1961, which, as amended, specifies a remarkable 33 goals, 75 priority areas, and 247 directives. These multiple goals are more than just an administrative burden; they make it very difficult for USAID to achieve clear results.<sup>4</sup>

The problem of policy incoherence has been echoed in many other analyses of U.S. foreign aid. For instance, the report of

#### LINK TO THE STATE-USAID STRATEGIC PLAN

- > Both the Joint Strategic Plan and this White Paper support the policies set forth by President Bush in the National Security Strategy
- > The Joint Strategic Plan’s 12 strategic goals organize the broad foreign policy functions carried out by State and USAID
- > The White Paper’s five core operational goals, on the other hand, frame the principles and approaches for more effective foreign aid
- > The Joint Strategic Plan and White Paper are mutually supportive companion pieces

the Ferris Commission—transmitted to the President in April 1992—stated:

AID is burdened with objectives and earmarks imposed by both the Executive Branch and Congress—39 objectives at last count. Many of AID’s management problems flow from policy confusion. . . . AID’s basic management problems can never be resolved without a reappraisal of the objectives of foreign economic assistance.<sup>5</sup>

Development progress and effective foreign aid are more important than ever. At the same time bilateral foreign aid is handicapped by policy incoherence—multiple and competing goals and objectives that pull in different directions. This has genuine detrimental impacts on aid effectiveness insofar as trying to achieve multiple and conflicting goals with the same dollar of aid prevents a concerted, strategic focus on any one goal. Further, policy incoherence aggravates perceptions of aid ineffectiveness insofar as aid for nondevelopmental

<sup>3</sup> See Steven Radelet, *Challenging Foreign Aid*, Center for Global Development, May 2003. Note: While these numbers are the product of the author’s analysis and could be challenged, few if any analysts would dispute the point that USAID labors under a multiplicity of goals, priorities, and directives from both legislative and executive sources.

<sup>4</sup> Radelet, p. 2.

<sup>5</sup> See *Report of the President’s Commission on the Management of A.I.D. Programs*, April 1992, pp. 4–5. These judgments about multiple competing goals and objectives leading to policy incoherence that hampers aid effectiveness are echoed in other commissioned reports including the Wharton Report, *Preventive Diplomacy: Revitalizing USAID*, September 1993; and the Hamilton Report, February 1989.

purposes is nonetheless judged on developmental criteria, and found wanting.

*This White Paper aims to address both problems. It argues that to establish policy coherence and address both real and perceived effectiveness issues, USAID needs to identify, clarify, and distinguish among its core goals; more clearly align resources with these goals; and manage strategically to achieve results in terms of each goal.* Considering the new national security challenges, the lessons of development experience over the past several decades, and the evolving context for development cooperation, the paper posits five core operational goals. It proposes distinct

resources for each goal, as opposed to the current situation of trying to achieve multiple goals with the same resource, particularly Development Assistance. For each goal the paper articulates guiding principles for managing these resources strategically.

Annex A examines some of the issues and implications for USAID that flow from these proposals. Annex B looks more closely at the development record, as background for the claim that lessons learned about aid effectiveness flow from considerable success as well as some failure. ■



# The Challenge of Development

The challenge of development is not new, although the context has changed in some important ways. There is a rich track record over the past four decades, with plenty of examples of success and failure. Several important recent stock-taking exercises include *Foreign Aid in the National Interest* and the 2002 Monterrey Conference on Financing for Development.<sup>6</sup> We draw on these and other sources, with a particular focus on what we've learned about development and about aid effectiveness.

## 1. WHAT'S BEEN ACCOMPLISHED AND WHAT HAVE WE LEARNED?

- > **We've seen more success than failure.** Contrary to perceptions of near universal failure, the development record is quite mixed and, for the most part, positive. More specifically, a substantial number of countries in the developing world—accounting for the vast majority of people—have made significant progress in terms of economic growth, health, education, the status of women and girls, and economic and political freedom (see Annex B). On the basis of a large body of experience, the development community has learned important lessons about what determines success or failure, and how foreign aid can be more effective.
- > **Institutions matter most.** The strength and performance of institutions, particularly as evidenced in the quality of governance and rule of law, are the primary determinants of development.<sup>7</sup> Resource transfers in the absence of institutional capacity do not yield sustainable outcomes.
- > **More specifically, development progress is first and foremost a function of commitment and political will directed at ruling justly, promoting economic freedom, and investing in people.**<sup>8</sup> This was emphasized by President Bush in connection with Monterrey.
- > **Accordingly, the role of foreign aid is essentially supportive.** Foreign aid can contribute by reinforcing recipient efforts to improve governance, promote economic freedom, and make sound public investments. Foreign aid and other resources cannot by themselves cause development to occur—they cannot substitute for recipient self-help efforts. When self-help efforts are adequate (or better), foreign aid can make an important positive contribution.
- > **Foreign aid and trade and investment complement—rather than substitute for—each other.** Foreign aid can support country efforts to improve the business climate by improving policies, strengthening institutions and governance, and undertaking sound public investments. These improvements enable countries to participate in and benefit from globalization, including rapidly expanding trade and investment. With development progress, the role of aid diminishes over time, and the role of trade and investment increases.
- > There are clear avenues for improving aid effectiveness. Aid effectiveness can be improved by the following:

<sup>6</sup> See *Foreign Aid in the National Interest: Promoting Freedom, Security, and Opportunity*, USAID, 2002; and "Final Outcome of the International Conference on Financing for Development," United Nations, March 2002.

<sup>7</sup> Institutions embody and reflect values, culture, and social capital. The challenge is to improve institutions and institutional performance in ways consistent with the underlying social and cultural context.

<sup>8</sup> "Ruling justly" refers to governance in its various dimensions: voice and accountability, political stability and absence of violence; government effectiveness; regulatory quality; rule of law; and control of corruption. See "Governance Matters III: Governance Indicators for 1996-2002" by Daniel Kaufman, Aart Kraay, and Massimo Mastruzzi, World Bank Research Paper, June 30, 2003. "Investing in people" is commonly understood to include basic education and basic health.

- more clearly defining the goals of aid and aligning resources more clearly with those goals
- allocating aid across countries more selectively, taking need, commitment, and performance more systematically into account
- allocating aid within countries more in accord with recipient developmental needs, opportunities, and priorities, and less in accord with donor political interests
- attaching more importance to strengthening institutional capacity and avoiding programs and practices that undermine institutional capacity
- placing more emphasis on partnership, participation, and ownership in the programming of aid
- paying more attention to absorptive capacity constraints
- improving donor coordination and harmonization so as not to overwhelm recipients with a proliferation of donor goals, objectives, practices, and approaches
- placing more emphasis on timely graduation, to demonstrate success and so that more aid will be available for poor countries

## 2. THE EVOLVING CONTEXT FOR DEVELOPMENT COOPERATION.

Some of the key factors and forces influencing development cooperation include the following:

- > Globalization: Both “goods” (trade, investment, technology, knowledge, information, skills) and “bads” (disease, weapons, terrorism, narcotics, other criminal activity) now cross borders more readily. There is greatly increased interdependence among countries. The rewards for good policies and institutions—and the negative consequences of weak policies and institutions—are greater than ever.
- > Similarly, there is an increasing and increasingly varied set of actors in the development arena, as private flows of resources to developing countries have increased much more rapidly than official aid. This has created opportunities for alliances and leveraging of resources. It has also created the need for better coordination and harmonization.
- > There is expanded understanding and agreement on the importance of development, the keys to development progress, the role of foreign aid, and how to improve aid effectiveness.
- > The last quarter of the twentieth century witnessed the greatest expansion of democracy in history. However, many of these democracies exhibit growing problems of governance that are eroding governments’ legitimacy with the public and undermining stability.
- > HIV/AIDS and other infectious diseases threaten development progress in a number of low-income countries. At the same time, some countries have taken effective measures to stem the expansion of HIV/AIDS. The nonhealth impacts need to be more fully understood and appreciated.
- > Violent extremist movements inhibit progress in a significant number of Muslim-majority countries, and threaten—to their detriment—to undermine the role and relationship of these countries to the international community.
- > Weak and failing states have posed a growing problem since the end of the Cold War—one that cannot be ignored in a world concerned with terrorism, proliferation of weapons of mass destruction, and global criminal networks. At the same time, while knowledge and understanding are increasing, proven strategies for strengthening weak states remain elusive.
- > Closely associated are increasing demands for humanitarian aid, reflecting the increased incidence of complex disasters, along with natural disasters in stable states.
- > Poverty reduction, the status of women and girls, and environmental sustainability have received increased attention and emphasis as key development issues.

- > There is a general perception of aid ineffectiveness and failure despite significant progress in a large number of countries that account for the bulk of the population in the developing world (see Annex B).

### 3. WHAT DOES THIS ADD UP TO IN TERMS OF CHALLENGES?

The developing world can be roughly divided into two groups of countries and associated challenges<sup>9</sup>:

- > **Relatively stable developing countries:** where commitment (as represented by governance and policy performance) ranges from weak to very good, and foreign aid can, to varying degrees, support development progress. For these countries the challenge is to launch or maintain development progress, leading to graduation from developmental foreign aid. The stronger the commitment, the greater will be progress and potential aid effectiveness. In countries with only weak commitment, there are sharp limits to what foreign aid can accomplish.
- > **Fragile states:** include those on a downward spiral toward crisis and chaos, some that are recovering from conflict and crisis, and others that are essentially failed states. The challenge for these countries is to strengthen institutions, basic governance, and stability, and thereby join the group of countries where more conventional development cooperation and progress are possible. There is considerable room for debate about which countries should be considered fragile states, and (more importantly) whether and how foreign aid can make a contribution.

The borderline between these groups of countries is necessarily blurred. First, relatively weak institutions are the hallmark of both poor countries and fragile states. However, while many, if not most, fragile states are low-income countries, not all low-income countries are considered fragile states.

<sup>9</sup> For purposes of this paper the “developing world” includes countries in Eastern Europe and the NIS that are engaged in the transition from communism.

Second, fragile states include some countries that are becoming increasingly unstable, some that are recovering from crisis and becoming more stable, and some that appear stable but have weak institutions vulnerable to shocks. The point at which such countries should be called fragile (as opposed to stable) is inevitably a judgment call. The results of one effort to sort developing countries in terms of commitment to reform and fragility suggest that most fragile states are to be found among low-income countries where commitment is relatively weak. This is not surprising since governance is at the heart of both commitment and fragility. At the same time, there are a few countries where policy performance is relatively good, but fragility is still a significant issue.

Further, three major challenges/concerns are manifest in various countries from each group:

- > **Global/transnational issues and other special foreign policy concerns:** primarily HIV/AIDS but also other infectious diseases, climate change, narcotics, and other issues that need to be addressed in various countries that might belong to either group. These concerns affect to varying degrees development prospects and prospects for progress in fragile states—the two core concerns identified above. However, they are typically addressed as self-standing concerns that call for their own distinct strategic approaches and guiding principles.
- > **Humanitarian response**—relief from both manmade and natural disasters. Again, this is a concern for various (but not all) countries in each group.<sup>10</sup> Humanitarian aid has been required at different times for relatively stable countries in Central America, Africa, and Asia; and also more typically for weak or failing states. Apart from disasters, there is also ongoing humanitarian aid in countries

<sup>10</sup> Global and transnational issues are those where one country's actions, efforts, successes, or failures in a given area have significant impacts on other countries (and vice-versa). Thus, they frequently call for international cooperation and collective action. In some cases (climate change, trade measures) a country may not have adequate incentives to take action unless other countries also take action.

such as India and Bangladesh, which are stable and making progress. Again, these humanitarian concerns are arguably separate and distinct from the challenges of development and fragile states.

- > **Specific strategic foreign policy priorities pertaining to countries** (e.g., key partners in the war on terrorism, Middle East Peace, and the Stability Pact) that call for funding such as ESF.<sup>11</sup> These priorities are not necessarily separate and distinct concerns. Instead, for some of these countries the two core concerns—development progress (e.g., at times in Egypt, Jordan, Pakistan, Indonesia, Philippines, Costa Rica) and strengthening fragile states (in Iraq, Afghanistan, Haiti, Kosovo) have been especially important from a foreign policy standpoint. In others (Israel, Turkey) neither development nor fragility are central programmatic concerns.

These five challenges suggest five core operational goals for foreign aid:

1. **Promote transformational development:** Transformational development brings far-reaching, fundamental changes in governance and institutional capacity, human capacity, and economic structure. Such development helps a country sustain further economic and social progress without depending on foreign aid. This goal pertains to reasonably stable developing countries that have significant need for concessional assistance and that have adequate (or better) commitment to ruling justly, promoting economic freedom, and investing in people.
2. **Strengthen fragile states:** Support stabilization, reform, and recovery in selected failing, failed, and recovering states when and where U.S. assistance can make a significant difference in strengthening institutions, managing conflict, and supporting postconflict reconstruction.

<sup>11</sup> Economic Support Funds, formerly known (quite aptly) as Security Supporting Assistance.

## **TRANSFORMATIONAL DEVELOPMENT AND FLEXIBLE RESOURCES**

“Transformational” development is development that does more than raise living standards and reduce poverty. It also transforms countries, through far-reaching, fundamental changes in institutions of governance, human capacity, and economic structure that enable a country to sustain further economic and social progress without depending on foreign aid. The primary determinant of progress in transformational development is political will and commitment to rule justly, promote economic freedom, and make sound investments in people.

For foreign aid to most effectively contribute and support recipient self-help efforts donors should: allocate aid among countries based on selectivity criteria; allocate aid within countries based on recipient needs and priorities; emphasize partnership, ownership, and participation in the selection and design of programs; focus on strengthening institutional capacity and dealing with absorptive capacity issues; and reinforce donor coordination and harmonization.

While earmarks, directives, and initiatives arguably make positive development contributions, such funding is often associated with restrictions and provisions that make it difficult to adhere to principles of aid effectiveness. They often get in the way of allocating aid selectively; eliciting recipient ownership and participation; focusing on institutional development to alleviate absorptive capacity constraints; reinforcing donor harmonization and coordination, and encouraging timely graduation. Accordingly, for aid to best support transformational development, donors need flexibility to adhere to best practices.



3. **Provide humanitarian relief:** To meet immediate human needs in countries afflicted by violent conflict, crisis, natural disasters, or persistent dire poverty.
4. **Support strategic states:** To help achieve specific U.S. foreign policy goals in countries of high priority from a strategic standpoint (e.g., Iraq, Afghanistan, Pakistan, Jordan, Egypt, Israel).
5. **Address global and transnational issues and other special/self-standing concerns:** For example, HIV/AIDS, other infectious diseases, climate change, direct support for international trade agreements, trafficking in persons, and counternarcotics. Such concerns are often distinguished by earmarks and directives that are restrictive rather than broad, and call for detailed program guidance about specific uses of funds. ■



# Guiding Principles, Approaches, and Programmatic Implications

## GENERAL

USAID will follow the approaches identified earlier for improving aid effectiveness, including the following:

- > A clearer delineation of goals and a clearer alignment of resources with goals
- > Increased selectivity (with criteria appropriate to each goal) in allocating resources across countries
- > Within countries, a greater focus on tailoring country programs to country needs and opportunities
- > A stronger emphasis on institutions, institutional capacity, and absorptive capacity both in allocating and programming aid
- > Increased attention to ownership, partnership, and participation in country assistance strategies
- > Improved donor coordination and harmonization
- > A greater emphasis on graduation (with criteria appropriate to each goal)

Private resources play a large and increasing role in addressing many of the challenges discussed in the previous section. USAID will continue to emphasize the Global Development Alliance (GDA) as a vehicle for leveraging private resources through partnerships. The GDA and other alliance-building mechanisms can also help foster a more vibrant and effective civil society as a force for public sector accountability and responsiveness.

A key challenge for adopting the approaches above will be their integration into USAID's strategic budgeting and management systems. The following discussion provides more detail on how resources can be allocated and managed more

strategically for each of the five core goals identified above. At the same time, it certainly does not address all of the important issues. USAID will need to develop more detailed guidance for each core goal, and undertake policy analysis to address issues that cannot be quickly or easily resolved. In particular, USAID needs to develop a sound strategy for fragile states that emphasizes selectivity and results, and commands interagency support. USAID will also need to ensure adequate coordination where a variety of goals and concerns are being pursued in the same country.



R. Zurba, USAID

## 1. PROMOTING TRANSFORMATIONAL DEVELOPMENT

For countries that are reasonably stable and are needy in developmental terms, the goal is to achieve far-reaching, fundamental changes in institutional capacity, human capacity, and economic structure, so that further economic and social progress can be sustained without dependence on foreign aid.<sup>12</sup> Achieving this goal depends primarily on country commitment and self-help efforts.

<sup>12</sup> The goal of transformational development includes but extends well beyond reducing poverty, promoting gender equality, ensuring environmental sustainability, and the other Millennium Development Goals.

The MCA will provide substantial funding to support development progress in a limited number of relatively needy countries with very good governance and policy performance (“top performers”) relative to others. USAID will play an active role in helping these countries make the transition and take full advantage of the opportunity represented by participation in the MCA.

This leaves a significant number of low-income countries where development progress is both feasible and desirable from the standpoint of U.S. interests. More specifically, assuming that the MCA will focus on a limited number of “top performers,” there are around 12 to 18 countries that could be characterized as “good performers,” and a similarly sized group of “fair performers.”

Some key guiding principles and approaches include the following:

- > To enhance aid effectiveness (and to the extent permitted by legislation) USAID will allocate development resources (other than MCA funds) taking into account need, commitment, and performance.<sup>13</sup> USAID will focus mainly on countries that are good performers; and secondarily (and selectively) on countries that are fair performers.
- > To enhance aid effectiveness (and to the extent permitted by legislation) USAID will allocate development resources within countries to activities expected to have the greatest development impact, taking into account recipient commitment, priorities, and self-help efforts; institutional strengthening and absorptive capacity constraints; and activities of other partners.<sup>14</sup> USAID will place priority on supporting recipient efforts to improve governance, promote economic growth, and make sound investments in people. Within this broad framework, the

composition of USAID programs may vary significantly across countries depending on country circumstances, needs, and opportunities. Reducing poverty, improving the status of women and girls, and ensuring environmental sustainability will continue to be important themes for USAID programs.

- > “Good performers” include countries that have not qualified for the MCA, but where governance and policy performance are nonetheless relatively good and development progress is clearly feasible. Some of these countries might eventually qualify for the MCA with improvements in several specific areas and no declines in others. In these countries USAID will support continued development progress through programs under the general rubrics of ruling justly, promoting economic freedom, and investing in people.
- > Among fair performers—countries where governance and policy performance are less strong but still conducive to development progress and aid effectiveness—USAID will focus development resources mainly on those countries where there is good reason to believe that policy performance will improve significantly. Developing methodologies to assess which midrange performers are seriously committed to improved policies is a major challenge and will require a focus on qualitative as well as quantitative measures. Qualitative assessments must be rigorous and accurate, assessing both leadership commitment to reform and the social and political feasibility of reform.
- > If resource availability permits, USAID may undertake modest development programs in stable countries with only weak commitment. Such assistance would be sharply limited, both in volume (very low development aid levels relative to other countries) and content (e.g., limited technical assistance, direct service delivery, focus on nongovernmental institutions, and targeted efforts to build demand for reform).
- > In middle-income countries—which typically have the institutional capacity (if not the policies) for sustained progress—USAID will make a more concerted effort to

<sup>13</sup> Performance includes both country performance and program performance.

<sup>14</sup> Where “legislation” is concerned, programming along these lines is compatible with broad sectoral earmarks (e.g., democracy/governance, agriculture, trade capacity building, basic education, basic health) that are flexible and permit a focus on the range of priority activities within a broadly defined sector. For further discussion see Annex A, Issue 7.

phase out *development* resources and promote graduation in *developmental* terms, while encouraging a greater role for private flows and nongovernmental actors, including through the Global Development Alliance. This does not mean severing all ties with middle-income countries, as such countries could still receive assistance for global and transnational issues, humanitarian purposes, and other specific concerns.<sup>15</sup>

- > In “strategic states” receiving significant amounts of ESF or ESF-like resources, and where development progress is a major part of our specific foreign policy concerns, USAID will work especially closely with relevant offices in the State Department to better coordinate development and other foreign policy concerns.<sup>16</sup> Ultimately, what can be achieved in developmental terms will depend mainly on recipient commitment and self-help efforts. Programs in such countries will be informed but not necessarily restricted by USAID policies and strategies for development.

## 2. STRENGTHENING FRAGILE STATES

Fragile states include failing, failed, and recovering states.

Failing states are characterized by a growing inability or unwillingness to assure provision of even basic services and security to their populations. Current examples might include Zimbabwe.

Failed states are those in which the central government does not exert effective control over, and is unable or unwilling to assure provision of vital services to, significant parts of its own territory. Current examples might include Somalia, Liberia, and DRC.

<sup>15</sup> The illustrative per capita income threshold for middle-income countries in this paper is \$1,450 in 2002.

<sup>16</sup> There is considerable debate about the scope for development effectiveness where ESF is concerned, since commitment to development progress is not a criterion for ESF allocations among countries. Nonetheless, in a significant number of ESF countries development progress has arguably been a critical part of our foreign policy interests, e.g. (at various times), Pakistan, Philippines, Indonesia, Egypt, Jordan, Macedonia, Costa Rica, and other parts of Central America.



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Recovering states are those that are still weak, but on an upward trajectory in terms of stability and basic governance. Current examples might include Afghanistan, Burundi, and Bosnia.

Fragile states may also include states that appear stable but whose political, economic, social, and security institutions are highly vulnerable to external or internal shocks. In addition to state weakness and failure, the challenge of fragile states is seen in many forms, including postconflict reconstruction, conflict mitigation and management, and famine relief.

For both failing and recovering states, there will be some for which classification will be a matter of debate, since the boundaries between the two groups are inevitably blurry. We are developing a strategy to help draw these distinctions more clearly and identify valid indicators of vulnerability to failure. In a select group of countries, it may be appropriate to have both development programs and programs aimed at overcoming fragility.

The goal in fragile states is stabilization, reform, and recovery that provides a foundation for transformational development. As with development efforts, the effectiveness of assistance to strengthen fragile states depends critically on recipient commitment and self-help efforts. This can pose dilemmas in failing and failed states, as weak governance is typically at the heart of fragility, and weak commitment is often the main factor behind weak governance. Indeed, USAID’s analysis suggests that fragile states are largely a subset of poor countries with only fair or weak policy performance.

At the same time, there are several countries (e.g., Indonesia, Sri Lanka) where policy performance is considered relatively good, but fragility is nonetheless evident due to conflict or other factors.

Some key guiding principles and approaches include the following:

- > Insofar as this is a separate and distinct goal, it is important to identify separate and distinct resources—other than development resources—for addressing challenges in fragile states.
- > In fragile states deemed important enough from a strategic standpoint to receive substantial ESF or ESF-like resources, USAID will work closely with State to promote stability, recovery, and governance while addressing other specific foreign policy concerns.
- > For other fragile states, USAID will work closely with the Administration and Congress to identify resources (separate from development resources) to be dedicated to promoting stability, recovery, and governance reform. Identifying a separate account will help address more transparently the difficult issue of the balance between development efforts and efforts to strengthen fragile states, and will help avoid policy coherence problems that stem from trying to address both challenges from the same account.
- > Selectivity will be applied. Selection of countries will be based on criteria of need, commitment by the host government and/or nongovernmental actors to reform, feasibility of achieving results, and foreign policy importance.
- > Effectiveness and results—including “graduation”—should not be measured in standard development terms but rather in terms of progress toward stability and improvements in governance as a foundation for eventual efforts at transformational development.
- > Developing a credible and effective strategy for fragile states is a top priority. USAID is developing an analytic framework to better identify and anticipate fragility and conflict in weak states and is analyzing the drivers of



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change in both positive and negative directions. These analyses will help identify interventions that can have an impact on the essential vulnerabilities in fragile states. It will be important to understand realistically what can be accomplished with foreign aid in fragile states.

### 3. HUMANITARIAN RESPONSE<sup>17</sup>

USAID is the U.S. Government’s lead agency for humanitarian assistance, including famine relief. Humanitarian assistance will be provided basically on the criterion of urgent need, and without penalty for weak government commitment. This reflects U.S. concern for saving lives and alleviating suffering of people in distress, regardless of the character of their governments. Resources, particularly food aid and disaster relief, will be allocated to provide relief to needy people, including internally displaced persons.

<sup>17</sup> Humanitarian response is a longstanding foreign aid priority (in contrast to some of the other core goals discussed in this paper). Further, while the context and framework for responding to humanitarian crises has changed, and there are issues about how best to provide humanitarian assistance, it has not been subject to the same widespread claims of ineffectiveness and pressing need for reform that often characterize discussions of developmental aid. Therefore, this discussion of humanitarian aid is relatively brief. This brevity should not be interpreted as a statement about priorities among core goals.

Some key guiding principles and approaches include the following:

- > Humanitarian assistance is often provided to countries where we are concerned with other operational goals and concerns such as development progress, overcoming fragility, combating HIV/AIDS and other communicable diseases, and addressing conflict and internal displacement of people. Assistance will be provided to reinforce our interests in these concerns.
- > To foster durable peace and stability in complex operations involving multiple concerns, USAID humanitarian assistance will be coordinated with other Agency efforts, and with State and other U.S. government agencies.
- > USAID will seek durable solutions to crises. Humanitarian aid will be programmed so as to reinforce the goals of stability, recovery, and improved governance in fragile states. We will emphasize disaster prevention and building local capabilities to respond.
- > USAID will be guided by the “do no harm” principle that seeks to ensure that assistance does not have unintended negative consequences. It will promote and further refine the concept of developmental relief.
- > In close coordination with State and other U.S. government agencies and external partners, USAID will work to protect internally displaced persons who do not have internally defined legal status and are therefore more vulnerable to human rights abuses.

#### 4. SUPPORT FOR STRATEGIC STATES

For strategic states the objectives of assistance will be determined principally by the State Department and the National Security Council. Guiding principles and approaches include the following:

- > Identification of countries and funding levels will typically be carried out by Congress or the Administration, based on foreign policy interests and concerns rather than criteria such as need, commitment, performance, and population size. Funding should be from ESF or ESF-like resources.
- > USAID strategic planning, programming, and performance monitoring, to the degree that it is warranted, should likewise be guided by the principal rationale and objectives of the assistance.
- > The U.S. National Security Strategy suggests that achieving development progress and strengthening fragile states are growing in importance as foreign policy priorities, particularly in states of geostrategic importance to the United States.
- > Increasingly, the primary foreign policy rationale for assistance may be matched by or indistinguishable from the developmental or recovery objectives. Thus, the strategic allocation of ESF and like resources will begin to benefit from the same principles of delineation, selectivity and accountability proposed in this White Paper.
- > The full range of assistance instruments (e.g., program support, cash transfers, and general budget support) will be available in principle.
- > Success, or return on investment, should be measured against the objectives that the assistance is supposed to achieve. Where development progress or addressing fragility is a major objective, recipient commitment remains a primary determinant of aid effectiveness and results.



Carl Mabbs-Zeno, USAID

## 5. GLOBAL/TRANSNATIONAL ISSUES AND OTHER SPECIAL CONCERNS



Esther Brand, CCP/Photoshare

Here the objective of assistance is to address global or transnational issues and other specific, self-standing concerns. These are frequently associated with earmarks, directives, and initiatives that entail relatively restrictive program guidance.

Global and transnational issues are those where progress depends on collective efforts and cooperation among countries.

Examples include HIV/AIDS and other infectious diseases, global climate change, international trade agreements, and certain criminal activity such as trafficking in persons and narcotics. They often call for a concerted response focused on a subset of developing countries where the issue or problem is most acute or immediate; and where development need and commitment to good governance are not important criteria for funding.

Other specific, self-standing concerns include development programs that are fairly specifically defined and restricted; oriented more toward near term delivery of specific services than broader institutional development; and for which the broad principles for development aid effectiveness and sustainability (discussed on page 4) are less readily applied. In particular, resources for these programs often are not allocated among countries based on broad developmental criteria. Being “Washington-driven,” they can readily fall short where recipient ownership, partnership, and participation are concerned. In the interests of achieving direct, near-term impacts, they often do not focus on institutional strengthening. Where resource levels are large, they can aggravate absorptive capacity constraints. Finally, they are often at odds with donor coordination and harmonization within a country-owned framework.<sup>18</sup>

Some key guiding principles and approaches include the following:

- > Separate resources should be identified for this goal. For the most part, the Administration and Congress already identify distinct resources to address such issues.
- > Selection of countries and funding levels will be largely related to specific need or presence of target, e.g., tropical forests or river basins in a particular country. The overall level of development and quality of development performance or commitment, particularly of the host government, will typically be of less importance in allocation decisions.
- > In countries where these issues are the sole or primary rationale for foreign assistance, “full” bilateral USAID missions may not be warranted. It often makes more sense for programs addressing such issues to be implemented from Washington or from regional bases. However, where delivery of such programs also involves the building of institutional capacity, local representation will remain critical.
- > Decisions about the role of USAID vis-à-vis other agencies will be based on comparative advantage. Other U.S. government agencies, the United Nations and other multilaterals, NGOs, or hybrids such as the Global Fund to Fight AIDS, TB, and Malaria may be better suited in some cases. Where USAID is significantly involved, greater use of personnel details (both to and from USAID) should be made.
- > USAID’s experience and relationships with local and international NGOs is a particular asset for this operational goal. So are partnerships under the Global Development Alliance.
- > Global and transnational issues will typically demand more in the way of interagency and international cooperation, coordination, and collaboration.
- > Strategic planning and performance monitoring approaches will be tailored to each concern to reflect outcome indicators and accomplishments at the country, regional, and/or global levels as appropriate. ■

<sup>18</sup> For more detail on this issue see the discussion in Annex A, Issue 7.



# Conclusion

Most critiques of U.S. bilateral foreign aid emphasize the problem of policy incoherence—multiple and competing goals and objectives that pull in different directions—leading to aid ineffectiveness. This paper has attempted to address and help resolve this problem. Considering the emphasis on development in the National Security Strategy and the USAID-State Strategic Plan, the proposed Millennium Challenge Account, the lessons of development experience over the past several decades, and the evolving context for development cooperation, the paper posits five core operational goals.

It proposes that resources for each goal be identified and managed strategically, as opposed to the current situation of trying to achieve multiple goals with the same resources, particularly Development Assistance. Some of the issues and implications for USAID that flow from these proposals are explored further in Annex A. ■



# Annex A: Issues for Discussion

Below are some of the issues and points of discussion about them that have arisen in the preparation of this paper.

## 1. Does this represent genuine reform? Does it address the problem of policy coherence?

- > The problem cited in the White Paper is that USAID has too many goals and objectives that compete with one another and pull us in different directions, leading to policy incoherence and ineffective aid. Yet the White Paper does not eliminate any goals and objectives—it merely focuses and realigns them. In what sense does this approach constitute reform and how (if at all) does it address problems of aid ineffectiveness and policy incoherence?
- > Leaving aside ESF and humanitarian aid, USAID currently tries to address most of these goals and objectives with one instrument—Development Assistance. This leads to complex and confusing budget and strategy guidance that tries to take into account a myriad of specific concerns, many associated with earmarks and directives, and yet urges operating units to achieve the greatest possible development results while addressing fragility, conflict, global issues, and other concerns. Operating units are often in the position of trying to achieve multiple goals and objectives with the same dollar. (Authors of policy and strategy papers are sometimes in an analogous position, writing about agriculture or education or trade from a development perspective while bringing in other goals and concerns such as support for U.S. trade negotiations).
- > The White Paper seeks to distinguish among core operational goals, and among the resources for each goal. For instance, resources for development and resources for global environmental issues get separated from one

another; and resources that can be programmed flexibly in response to country needs and opportunities are separated from resources associated with relatively restrictive earmarks, directives, and program guidance.

- > This allows for strategic management—policies, strategies, resource allocation, program guidance, and results reporting that are tailored to each core goal.
  - > The first four goals (development, humanitarian response, fragile states, and strategic states) can each be approached in a fairly coherent fashion while tailoring programs to country circumstances.
  - > The fifth goal (global and transnational issues and special [self-standing] concerns) is admittedly a catchall category. However these concerns typically are funded by earmarks and directives, so that operating units can avoid the position of trying to achieve several goals with the same dollar of program funds.
- ## 2. Can this get accomplished without legislation to establish a new set of accounts?
- > A foreign aid bill based on the five core operational goals and an associated set of accounts would be the clearest and cleanest way to implement the reforms proposed in the White Paper.
  - > There are some legislative remedies that would allow greater flexibility in accounts without a complete overhaul of the legislative framework.
  - > Even without legislation, the reforms could still be implemented with cooperation from State and OMB simply by taking existing accounts and funding levels and subdividing and managing them according to the five goals.

- > In particular, the DA account would be subdivided into funds that could be used fairly flexibly for development; funds that could be used fairly flexibly for fragile states; and funds subject to restrictive earmarks, directives, and program guidance, which would be associated with the fifth goal.
- > Some SEED and FSA funds could be considered as flexible development and fragile state funding (though they would not be geographically flexible).
- > USAID would need to reform its monitoring, evaluation, and reporting systems to conform with these new operational goals.

### 3. Under the latter approach, what if there are only very low levels of flexible resources for development and fragile states?

- > There is a widespread if not universal perception that flexible resources are extremely scarce relative to restricted resources for special concerns. A very rough, preliminary analysis of flexible resources in the Development Assistance account tends to confirm this.
- > This budget analysis suggests the need for considerably more in the way of flexible resources if the goals of the National Security Strategy are to be achieved.

### 4. Do the White Paper reforms address the tension between centralized and decentralized programming?

- > Yes. By distinguishing among core goals and among the resources for each goal, we reduce pressure for a “one size fits all” approach to this issue. Different goals call for and permit different approaches.
- > Relatively centralized approaches arguably make the most sense for global issues and special concerns funded by earmarks and directives that require specific guidance and central oversight and reporting.
- > Relatively decentralized approaches arguably make the most sense for development and fragile states, where programs should be based on country needs, priorities,

and circumstances subject to broad policy guidance from the center.

- > Programs for strategic states would vary by country, but with considerable central direction in each case.

### 5. Can we readily distinguish between the “development” countries (those that are reasonably stable and committed) and fragile states? Aren’t many countries candidates for both groups? More generally, how are country groups to be established and how rigid are the categories?

- > The difference between “transformational development” countries and fragile states is clearly an issue in principle as well as in practice, since (relatively) weak institutions are the hallmark of both poor countries and fragile states. Almost all fragile states are low-income countries, but not all low-income countries are fragile states.
- > To explore the issue at the practical level, we undertook a sorting exercise, distinguishing first between low- and middle-income countries, and then using various indicators of commitment to subdivide the low-income group. We also took into account judgments from budget guidance and elsewhere on fragile states. (Including identifying recipients of transition assistance).
- > The results are as follows:
  - No middle-income countries are identified as fragile states.
  - There is a fairly high (negative) correlation between ratings of commitment and indicators of fragility. Most fragile states are low-income countries with relatively weak policy and institutional performance (e.g., Zimbabwe), and so would not be significant claimants of development funds.
  - There are only a few countries (Sri Lanka, Indonesia, Nepal, Uganda, Pakistan) that are sometimes considered fragile states and that simultaneously have fairly good policy performance based on one or another rating (e.g., the IDA quintile ratings).

- > The emerging fragile states strategy will presumably set forth more rigorous definitions and approaches for identifying fragile states, providing an opportunity to explore this issue more conclusively.
  - > Fragile states include failing, failed, and recovering states. So, some fragile states will be on a downward trajectory and others on an upward trajectory, i.e. moving from one group towards another. We will need to develop guidance to accommodate transitions from one group to the other.
  - > For countries that are both good development partners and fragile states, there are probably ways to pursue both goals simultaneously, just as some countries would receive funding both for development and for global issues.
  - > Whether there are many or few such cases depends on how broad or restrictive are the definitions and criteria for fragile states; and on resource levels for transformational development and for fragile states. The broader the definitions and the associated criteria, the more countries will be considered fragile, and the greater likelihood of dual programs. The higher are resource levels for transformational development and fragile states, the more likely that a given country would have programs for both concerns.
  - > In practice, the sorting and budgeting process for countries could proceed roughly as follows:
    - Distinguish between middle-income and low-income countries.
    - Sort low-income countries according to commitment/policy performance (using MCA analysis, the IDA CPIA ratings, and other sources of information).
    - Identify those countries receiving substantial ESF or ESF-like resources as “strategic states.”
    - Identify those countries to be classified as fragile states (failing, failed, and recovering).
    - Allocate transformational development funding to developing countries according to commitment, need, and other development criteria.
    - Allocate fragile state funding selectively among those countries based on criteria identified in the fragile states strategy.
    - For countries designated as receiving both development and fragile states funding, double check to see that development funding can be used effectively. If so, determine how the country strategy will accommodate both development and fragile states concerns and programs.
    - For middle-income countries, determine whether they should receive development and/or fragile state funding at the expense of low-income countries.
- 6. What about graduation?**
- > USAID has long found it difficult to formulate a graduation policy because of various important and valid reasons for maintaining an aid program in middle-income and advanced developing countries.
  - > One advantage of distinguishing among core operational goals is that it permits explicit and clear graduation from, say, development or fragile states funding while leaving open the possibility for funding for other important concerns such as humanitarian aid, global and transnational issues, and other special concerns.
  - > In other words, “graduation” (and presence more generally) needs to be looked at with respect to each goal, rather than as an overall concept.
  - > The U.S. would still maintain an assistance relationship with key middle-income countries to address global and transnational issues, humanitarian response, and other specific foreign policy concerns.
  - > A more concerted approach to graduation from “development” funding for middle-income countries (which have good access to private resources and international technology and expertise) would help free up development resources and field staff for other programs.

- > Graduation from “fragile state” funding would presumably mean making a transition to a development program, assuming a reasonable level of commitment.
- 7. How can we distinguish between earmarks and directives for special self-standing concerns (Goal 5) and resources for transformational development (Goal 1)?**
- > It is important to take a practical rather than ideological approach to this issue. Programs associated with many earmarks and directives can make valuable contributions to development. The main issue is not earmarks and directives per se, but rather how flexible or restricted is the associated funding. At the point where resources cannot be programmed according to aid effectiveness principles discussed in the text (selectivity, ownership, etc.) they should be considered restricted resources for special concerns.
  - > For instance, earmarks and directives that permit choices among a broad range of activities for a major “sector” such as agriculture, trade, basic health, or basic education would be considered relatively flexible funds.
  - > The practical questions to be asked in each case include
    - Is the funding subject to fairly restrictive guidance?
    - Can the funding be allocated across countries according to broad development criteria of general need and commitment; or is it directed to countries based on strategic criteria that are specific to the concern in question?
    - Within countries how flexibly can it be programmed—to a relatively wide or a fairly narrow range of activities within a major sector?
    - To what extent are recipient ownership and partnership important criteria for decisions about which activities to fund?
    - How strictly is the funding tied to delivery of specified goods or services? Or, to service delivery to narrowly defined groups?
  - Can the funding readily and effectively be used to support significant policy reform and institutional strengthening at the broad sectoral level?
  - Does the funding aggravate absorptive capacity constraints?
  - Is the funding programmed in ways that exacerbate problems of donor coordination and harmonization?
- > The judgments of field staff are particularly important in considering these questions. On the basis of the answers USAID could determine which resources go with which goal; and might also be in a good position to argue for broadening some earmarks and directives to enhance development impact and results.
- 8. Does the White Paper call for USAID to specialize and operate in fewer program areas?**
- > This needs to be considered “goal by goal.”
  - > For development resources the White Paper argues that USAID should follow best practice in tailoring programs to country circumstances and priorities, within the broad framework of ruling justly (democratic governance), investing in people (including basic education and basic health), and promoting economic freedom and economic growth.
  - > Accordingly, a USAID mission concerned with development programming would jointly identify with the recipient country a limited number of areas where USAID can make the greatest contribution.
  - > This approach would have USAID involved in carrying out a limited number of development activities in any given country, but a range of activities across countries.
  - > Other goals (fragile states, strategic states, and particularly global, transnational, and other special concerns) would have USAID undertaking an even wider range of activities across countries.

### 9. Does the White Paper call for USAID to operate in fewer countries?

- > As with many other issues, this needs to be considered “goal by goal.” The main positive impacts on effectiveness will come from having clearer goals in each country, rather than reducing the number of countries in which USAID operates.
- > Guiding principles for development call for most but not necessarily all development resources to be focused on good and fair performers; and for any transformational development programs in weak performers to be (at most) relatively small and sharply limited in scope and content.
- > The fewer resources available for transformational development (i.e., the fewer flexible resources), the more important to concentrate those on good performers, and not allocate them to weak performers.
- > Expressed differently, the number of countries with development programs will be partly or even mainly a function of availability of development resources. With enough development resources, there are strong arguments for maintaining a modest, limited presence in weak performers.
- > In any case, there might still be funding for global issues and special concerns in a wide range of developing countries, including weak performers and middle-income countries.
- > It is not yet clear what levels of resources might be available for fragile states, and how they would be allocated among countries. There is a presumption of selectivity so that some fragile states would not have programs.

### 10. What are the implications for staffing?

- > Some of the core operational goals (development, fragile states, and certain strategic states programs) clearly call for qualified staff in the field, since these programs need to be tailored to country circumstances and call for attention to institutions and policies.

- > In particular relatively good performers might need more staff than others depending on our goals and program levels in such countries.
- > Others goals (global, transnational, and special concerns; humanitarian aid) might demand considerably less or even very little in the way of field staff, with more reliance on Washington staff and mechanisms and/or assistance channeled through intermediary organizations. This can vary considerably depending on the specific concern. For HIV/AIDS, on-the-ground staff is considered an important asset.
- > For development and fragile states, there is considerable funding uncertainty. If funding levels are low, then staff demands might well be concentrated in relatively few countries.
- > To the extent that USAID emphasizes graduation from transformational development programs for middle-income countries, this might free up both resources and staff.

### 11. How can we gauge commitment and policy performance, particularly where economic growth and governance are concerned?

- > For countries in the development group, there are a number of useful approaches, including the “hurdles approach” used for the MCA (along with the underlying data sources); the World Bank’s Country Policy and Institutional Assessment scores for IDA recipients; and various assessments of economic freedom, competitiveness, and the business climate. (In the latter cases it is important and challenging to isolate policy effort and avoid rewarding level of development.)
- > For fragile states, and for stable developing countries with well-intentioned leadership but low ratings on actual policy performance, more ad hoc approaches to gauging commitment will need to be developed and tested.

- > For global issues and special concerns, commitment and policy performance would be judged more narrowly—in ways appropriate to the specific concern.

#### **12. Do we know how to achieve results in fragile states?**

- > There are a large number of issues surrounding fragile states, including issues of definitions, indicators, how to gauge commitment, whether and how foreign aid can make a difference, and how to define and measure results.
- > We are working on a fragile states strategy that will set forth our understanding of the challenge and how foreign aid can make a clear positive contribution.

#### **13. To what extent is there overlap between the group of strategic states (ESF countries), and the development and fragile state groups of countries, and how is this to be handled?**

- > Some argue that there is no overlap at all, in the sense that we are in ESF countries for special reasons that have little or nothing to do with development, therefore we should simply program and report according to the rationale for providing ESF. In particular, we typically provide ESF to countries with no reference to development criteria of need or commitment, therefore program results should not be judged on criteria of development effectiveness.
- > The White Paper argues that in some ESF countries our programmatic goal is development progress, even if that is not the rationale for the assistance. (Possible current examples include Egypt and Jordan; historical examples arguably include Philippines, Pakistan, and Costa Rica.) Such examples will likely become more frequent as development progress is increasingly seen as vital to achieving our strategic goals. In countries that are not making development progress, strategic partnership and cooperation may be put at risk.
- > The overlap between strategic states and fragile states is more obvious (Iraq, Afghanistan; historical examples include Bosnia.)

- > The White Paper posits three sub-groups among strategic states: those where development progress is the main program goal (whatever the rationale for the assistance in the first place); those where overcoming fragility is the main program goal; and those where neither is an important program goal.

- > Which strategic states belong in which groups would be primarily a matter for the State Department to decide, in close consultation with USAID on issues of feasibility and expected results.

- > In the first group we would follow best development practice to the extent permitted by our specific foreign policy goals and constraints in each country, and report accordingly (taking into account the impact of foreign policy constraints and recipient commitment on aid effectiveness and results).

- > Similarly, in the second group we would follow “best fragile states practice” (as defined in the forthcoming fragile states strategy) to the extent permitted by our specific foreign policy goals.

- > In the third group (e.g. Turkey, Israel) programmatic objectives would depend on guidance from State (informed by development principles and lessons learned where appropriate), and results reporting would reflect those objectives.

#### **14. How do the five operational goals in the White Paper fit with the twelve “strategic goals” in the USAID/State Strategic Plan? More generally, is the White Paper compatible with the Strategic Plan or do they represent competing frameworks?**

- > Both the White Paper and the Joint Strategic Plan flow from the three pillars of the National Security Strategy—defense, development, and diplomacy.
- > The White Paper lays out operational goals for more effective foreign aid. The operational goals in the White Paper and the strategic goals in the Plan are compatible. The goals in the Plan emphasize functional areas (eco-



conomic, political, social, global issues). In that respect the Plan is similar to previous Strategic Plans for USAID. The White Paper framework emphasizes goals that pertain to countries (transformational development, strengthen fragile states, support strategic states) while also including humanitarian, global, and transnational concerns.

- > Both frameworks encompass the range of activities that USAID currently undertakes. The Joint Strategic Plan covers much more than foreign aid, and is not particularly influenced by accounts for foreign aid. The White Paper is explicitly a framework for foreign aid.
- > Using the White Paper as a framework for organizing and managing foreign aid strategically is fully compatible with assigning assistance activities to one or another goal in the Strategic Plan, and reporting on results in terms of those strategic goals. It is hard to imagine an activity carried out under the White Paper framework that would not readily fit at least one of the strategic goals in the Strategic Plan. ■



# Annex B: Development Performance and Accomplishments

## DEVELOPMENT PERFORMANCE BY REGION<sup>19</sup>

- > **Africa:** We've seen significant advances in social indicators (fertility, infant mortality) but very little economic progress as a whole over the past three decades. However, since the late 1980's growth performance has been increasingly mixed [rather than uniformly weak] and steadily improving, as an increasing number of countries have achieved respectable growth rates over a meaningful time period. (Uganda, Mozambique, Ghana, Senegal, Benin, Burkina Faso, Mauritania, Tanzania). There's been significant progress in economic freedom and political freedom in many countries. However, there is a dangerously high incidence of weak/failing states. And, HIV/AIDS increasingly inhibits progress in many countries.
- > **Low-income South/Southeast Asia:** There has been steady growth in most countries along with advances in social indicators and progress in political and economic freedom. (Significant positive stories include India, Bangladesh, Sri Lanka, and Vietnam). Because of large populations, progress in this set of countries has major implications for achieving the Millennium Development Goals. But, progress has been fragile (witness Pakistan and Indonesia in the 1990's) and continued progress is by no means assured. And, there are clear trouble spots (Afghanistan, Burma).
- > **East Asia/Advanced SE Asia:** There has been enormous, widespread progress affecting large numbers of people (Korea, Taiwan, Hong Kong, Singapore, Malaysia, Thailand, China), with significant recovery from the Asian Financial Crisis.
- > **Middle East/North Africa:** This is a mixed and, in many respects, positive picture, considering Morocco, Algeria, Tunisia, Egypt (which has done better than commonly acknowledged according to accepted indicators of development), Israel, Lebanon, Jordan, Turkey, and Yemen. Many other countries have been largely outside the sphere of development cooperation (Libya, Iraq, Syria, Iran, Gulf States, Saudi Arabia.)
- > **Latin America:** Most countries are middle-income (only Haiti and Nicaragua are in the low-income group) with good/improving social indicators. There has been major progress in terms of political and economic freedom. But, the record on growth has been inconsistent and disappointing, with only a few bright spots. (Chile, Mexico). Apart from Venezuela, Cuba, Haiti and Colombia, there are few near-term threats associated with fragile states.
- > **Eastern Europe:** We've seen major progress since the fall of the Iron Curtain, and significant improvements in economic and political terms. While many countries have not regained pre-transition levels of GDP, recent growth performance (over the past five years or more) has been strong almost everywhere. There are many graduates or near graduates (Baltics/Northern Tier/Croatia/

<sup>19</sup> These brief characterizations are based on material prepared in recent years for USAID's Annual Performance Reports; and on "Recent Economic Performance in Developing Countries," USAID/PPC, December 2003.

Slovenia), as well as some countries that merit continued attention (Stability Pact/Serbia).

- > **NIS:** There have been major improvements in economic policy and growth performance, but the number of weak states remains large, and social indicators are declining in many instances.

#### DEVELOPMENT PERFORMANCE BY OTHER GROUPINGS

Dividing the developing world into normal integrators and slow integrators (mainly low-income countries) as in FANI and World Bank papers: each group is large; the normal integrators have made a fair amount of progress as a group; and the slow integrators have not. Countries in the slow integrator group represent the major development challenge and the major hazards where weak states are concerned.<sup>20</sup>

Dividing the developing world into “development groups” we see<sup>21</sup>:

<sup>20</sup> See *Foreign Aid in the National Interest: Promoting Freedom, Security, and Opportunity*; and “Globalization, Growth, and Poverty,” a World Bank Policy Research Report.

<sup>21</sup> These groupings based on “The Development Record and the Effectiveness of Foreign Aid,” *Praxis* (The Fletcher Journal of Development Studies), Volume XI, 1999.

- > a large and growing number of graduates—most are solid international citizens (The “Asian Miracles” except Indonesia, much of Latin America, Turkey and Tunisia, Mauritius, the Baltics and the Northern Tier of Eastern Europe);
- > a significant and growing number of middle-income countries (in Latin America, Middle East/North Africa, Asia, and Eastern Europe) for which graduation within a decade is feasible (also mainly “solid citizens”);
- > a numerically small (10-15) but very populous group of low-income countries that have made/are making genuine progress (most of South and Southeast Asia, Uganda, Ghana, Mozambique, Senegal); and
- > a numerically large but far less populous group of low-income countries where progress has been at best intermittent (Mainly in Africa; a few in Asia and Latin America).

Fragile states are mainly a subset of this latter group. ■









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